The following table presents the funded status of the Company's pension and other postretirement benefit plans as of December 31, 2000 and 1999, and the corresponding amounts that are included in the Company's Consolidated Balance Sheets:

| | Pension Benefits | | Medical/Life Benefits | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| Change in Benefit Obligation: | | | | |
| Obligation at beginning of year | $ 806.0 | $ 872.5 | $ 615.4 | $ 616.8 |
| Service cost | 19.0 | 14.6 | 5.3 | 5.2 |
| Interest cost | 60.5 | 59.7 | 45.0 | 41.5 |
| Currency exchange rate change | - | (5.7) | - | - |
| Curtailments, settlements and amendments | 33.7 | .4 | (33.4) | - |
| Actuarial (gain) loss | 9.1 | (44.5) | 79.5 | .1 |
| Benefits paid | (92.5) | (91.0) | (53.6) | (48.2) |
| Obligation at end of year | 835.8 | 806.0 | 658.2 | 615.4 |
| Change in Plan Assets: | | | | |
| FMV of plan assets at beginning of year | 857.8 | 801.8 | - | - |
| Actual return on assets | (18.0) | 133.0 | - | - |
| Employer contributions | 10.7 | 14.0 | 53.6 | 48.2 |
| Benefits paid | (92.5) | (91.0) | (53.6) | (48.2) |
| FMV of plan assets at end of year | 758.0 | 857.8 | - | - |
| Obligation in excess of (less than) plan assets | 77.8 | (51.8) | 658.2 | 615.4 |
| Unrecognized net actuarial gain (loss) | 25.1 | 131.9 | (21.6) | 56.7 |
| Unrecognized prior service costs | (45.1) | (15.2) | 78.3 | 57.7 |
| Adjustment required to recognize minimum liability | 1.8 | 1.2 | - | - |
| Intangible asset and other | 3.0 | 2.6 | - | - |
| Accrued benefit liability | $ 62.6 | $ 68.7 | $ 714.9 | $ 729.8 |

The aggregate accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligation in excess of plan assets were $789.3 and $748.5, respectively, as of December 31, 2000, and $92.4 and $79.7, respectively, as of December 31, 1999.

| | Pension Benefits | | | Medical/Life Benefits | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Components of Net Periodic Benefit Costs: | | | | | | |
| Service cost | $ 19.0 | $ 14.6 | $ 14.2 | $ 5.3 | $ 5.2 | $ 4.2 |
| Interest cost | 60.5 | 59.7 | 59.7 | 45.0 | 41.5 | 37.5 |
| Expected return on assets | (77.9) | (72.9) | (69.4) | - | - | - |
| Amortization of prior service cost | 3.9 | 3.3 | 3.2 | (12.8) | (12.1) | (12.4) |
| Recognized net actuarial (gain) loss | (1.9) | .7 | 1.4 | - | - | (7.1) |
| Net periodic benefit cost | 3.6 | 5.4 | 9.1 | 37.5 | 34.6 | 22.2 |
| Curtailments, settlements, etc. | .1 | .4 | 3.2 | - | - | - |
| Adjusted net periodic benefit costs | $ 3.7 | $ 5.8 | $ 12.3 | $ 37.5 | $ 34.6 | $ 22.2 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 1% Increase | 1% Decrease |
|---|---|---|
| Increase (decrease) to total of service and interest cost | $ 6.8 | $ (5.0) |
| Increase (decrease) to the postretirement benefit obligation | $ 68.3 | $ (48.0) |

*Postemployment Benefits.* The Company provides certain benefits to former or inactive employees after employment but before retirement.

*Incentive Plans.* The Company has an unfunded incentive compensation program, which provides incentive compensation based on performance against annual plans and over rolling three-year periods. In addition, the Company has a "nonqualified" stock option plan and KACC has a defined contribution plan for salaried employees. The Company's expense for all of these plans was $5.7, $6.0 and $7.5 for the years ended December 31, 2000, 1999 and 1998, respectively.

Up to 8,000,000 shares of the Company's Common Stock were reserved for issuance under its stock incentive compensation plans. At December 31, 2000, 1,861,752 shares of Common Stock remained available for issuance under those plans. Stock options granted pursuant to the Company's nonqualified stock option program are granted at or above the prevailing market price, generally vest at a rate of 20 - 33% per year, and have a five or ten year term. Information concerning nonqualified stock option plan activity is shown below. The weighted average price per share for each year is shown parenthetically.

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Outstanding at beginning of year ($10.24, $9.98 and $10.45) | 4,239,210 | 3,049,122 | 819,752 |
| Granted ($10.23, $11.15 and $9.79) | 757,335 | 1,218,068 | 2,263,170 |
| Exercised ($7.25 in both years) | - | (7,920) | (10,640) |
| Expired or forfeited ($11.08, $11.02 and $9.60) | (620,598) | (20,060) | (23,160) |
| Outstanding at end of year ($10.24, $10.24 and $9.98) | 4,375,947 | 4,239,210 | 3,049,122 |
| Exercisable at end of year ($10.18, $10.17 and $10.09) | 2,380,491 | 1,763,852 | 1,261,262 |

Options exercisable at December 31, 2000 had exercisable prices ranging from $6.13 to $12.75 and a weighted average remaining contractual life of 3.4 years.

**11. Minority Interests and Pledged Shares of Common Stock**

*Minority Interests.* The Company owns a 90% interest in Volta Aluminium Company Limited ("Valco") and a 65% interest in Alumina Partners of Jamaica ("Alpart"). These companies' financial statements are fully consolidated into the Company's consolidated financial statements because they are majority-owned. Interests of Alpart's and Valco's minority shareholders' (included in "Other" in the table below) are included in minority interests together with KACC's Redeemable Preference Stock and KACC's Preference Stock discussed below. Changes in minority interest were:

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Redeemable Preference Stock | Other | Redeemable Preference Stock | Other | Redeemable Preference Stock | Other |
| Beginning of period balance | $ 19.5 | $ 98.2 | $ 20.1 | $ 103.4 | $ 27.7 | $ 100.0 |
| Redeemable preference stock - | | | | | | |
| Accretion | - | - | 1.0 | - | 1.1 | - |
| Stock redemption | (2.0) | (.8) | (1.6) | - | (8.7) | - |
| Reclassification (see below) | (17.5) | - | - | - | - | - |
| Minority interests | - | 3.7 | - | (5.2) | - | 3.4 |
| End of period balance | $ - | $ 101.1 | $ 19.5 | $ 98.2 | $ 20.1 | $ 103.4 |

In 1985, KACC issued its Cumulative (1985 Series A) Preference Stock and its Cumulative (1985 Series B) Preference Stock (together, the "Redeemable Preference Stock") each of which has a par value of $1 per share and a liquidation and redemption value of $50 per share plus accrued dividends, if any. No additional Redeemable Preference Stock is expected to be issued. In connection with the USWA settlement agreement (see Note 5), during March 2001, KACC redeemed all of the Redeemable Preference Stock (350,872 shares outstanding at December 31, 2000). The amount applicable to the unredeemed shares at December 31, 2000 ($17.5), was included in Other acrrued liabilities. The net cash impact of the redemption on KACC was only approximately $5.5 because approximately $12.0 of the redemption amount had previously been funded into redemption funds (included in Prepaid expenses).

KACC has four series of $100 par value Cumulative Convertible Preference Stock ("$100 Preference Stock") outstanding with annual dividend requirements of between 4 1/8% and 4 3/4% (included in "Other" in the above table). KACC has the option to redeem the $100 Preference Stock at par value plus accrued dividends. KACC does not intend to issue any additional shares of the $100 Preference Stock. The $100 Preference Stock can be exchanged for per share cash amounts between $69 - $80. KACC records the $100 Preference Stock at their exchange amounts for financial statement presentation and the Company includes such amounts in minority interests. At December 31, 2000 and 1999, outstanding shares of $100 Preference Stock were 9,250 and 19,538, respectively.

*Pledged Shares.* From time to time MAXXAM or certain of its subsidiaries which own the Company's Common Stock may use such stock as collateral under various financing arrangements. At December 31, 2000, 26,737,443 shares of the Company's Common Stock beneficially owned by MAXXAM Group Holdings Inc. ("MGHI"), a wholly owned subsidiary of MAXXAM, were pledged as security for $130.0 principal amount of 12% Senior Secured Notes due 2003 issued in December 1996 by MGHI. An additional 7,915,000 shares of the Company's Common Stock were pledged by MAXXAM under a separate agreement under which $13.4 had been borrowed by MAXXAM at December 31, 2000.

**12. Commitments and Contingencies**

*Commitments.* KACC has a variety of financial commitments, including purchase agreements, tolling arrangements, forward foreign exchange and forward sales contracts (see Note 13), letters of credit, and guarantees. Such purchase agreements and tolling arrangements include long-term agreements for the purchase and tolling of bauxite into alumina in Australia by QAL. These obligations are scheduled to expire in 2008. Under the agreements, KACC is unconditionally obligated to pay its proportional share of debt, operating costs, and certain other costs of QAL. KACC's share of the aggregate minimum amount of required future principal payments at December 31, 2000, is $101.5 which matures as follows: $14.1 in 2001, $43.0 in 2002 and $44.4 in 2003. KACC's share of payments, including operating costs and certain other expenses under the agreements, has ranged between $92.0 - $96.0 over the past three years. KACC also has agreements to supply alumina to and to purchase aluminum from Anglesey.

Minimum rental commitments under operating leases at December 31, 2000, are as follows: years ending December 31, 2001 - $36.5; 2002 - $32.3; 2003 - $29.4; 2004 - $26.9; 2005 - $26.4; thereafter - $78.0. The future minimum rentals receivable under noncancelable subleases was $132.3 at December 31, 2000.

Rental expenses were $42.5, $41.1 and $34.5, for the years ended December 31, 2000, 1999 and 1998, respectively.

KACC has a long-term liability, net of estimated subleases income (included in Long-term liabilities), on a building in which KACC has not maintained offices for a number of years, but for which it is responsible for lease payments as master tenant through 2008 under a sale-and-leaseback agreement. During 2000, KACC reduced its net lease obligation by $17.0 (see Note 1) to reflect new third-party sublease agreements which resulted in occupancy and lease rates above those previously projected.

*Environmental Contingencies.* The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of the environmental laws, and to claims and litigation based upon such laws. KACC currently is subject to a number of claims under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments Reauthorization Act of 1986 ("CERCLA"), and, along with certain other entities, has been named as a potentially responsible party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA.

Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. The following table presents the changes in such accruals, which are primarily included in Long-term liabilities, for the years ended December 31, 2000, 1999 and 1998:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Balance at beginning of period | $ 48.9 | $ 50.7 | $ 29.7 |
| Additional accruals | 2.6 | 1.6 | 24.5 |
| Less expenditures | (5.4) | (3.4) | (3.5) |
| Balance at end of period | $ 46.1 | $ 48.9 | $ 50.7 |

These environmental accruals represent the Company's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology, and the Company's assessment of the likely remediation action to be taken. The Company expects that these remediation actions will be taken over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately $3.0 to $12.0 for the years 2001 through 2005 and an aggregate of approximately $21.0 thereafter.

As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals. The Company believes that it is reasonably possible that costs associated with these environmental matters may exceed current accruals by amounts that could range, in the aggregate, up to an estimated $35.0. As the resolution of these matters is subject to further regulatory review and approval, no specific assurance can be given as to when the factors upon which a substantial portion of this estimate is based can be expected to be resolved. However, the Company is currently working to resolve certain of these matters.

The Company believes that KACC has insurance coverage available to recover certain incurred and future environmental costs and is pursuing claims in this regard. During December 1998, KACC received recoveries totaling approximately $35.0 from certain of its insurers related to current and future claims. Based on the Company's analysis, a total of $12.0 of such recoveries was allocable to previously accrued (expensed) items and, therefore, was reflected in earnings during 1998 (see Note 1 - Other Income (Expense)). The remaining recoveries were offset against increases in the total amount of environmental reserves. No assurances can be given that the Company will be successful in other attempts to recover incurred or future costs from other insurers or that the amount of recoveries received will ultimately be adequate to cover costs incurred.

While uncertainties are inherent in the final outcome of these environmental matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

*Asbestos Contingencies.* KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not sold for more than 20 years.

The following table presents the changes in number of such claims pending for the years ended December 31, 2000, 1999 and 1998.

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Number of claims at beginning of period | 100,000 | 86,400 | 77,400 |
| Claims received | 30,600 | 29,300 | 22,900 |
| Claims settled or dismissed | (19,800) | (15,700) | (13,900) |
| Number of claims at end of period | 110,800 | 100,000 | 86,400 |
| Number of claims at end of period (included above) covered by agreements under which KACC expects to settle over an extended period | 66,900 | 31,900 | 30,000 |

The Company maintains a liability for estimated asbestos-related costs for claims filed to date and an estimate of claims to be filed over a 10 year period (i.e., through 2010). The Company's estimate is based on the Company's view, at each balance sheet date, of the current and anticipated number of asbestos-related claims, the timing and amounts of asbestos-related payments, the status of ongoing litigation and settlement initiatives, and the advice of Wharton Levin Ehrmantraut Klein & Nash, P.A., with respect to the current state of the law related to asbestos claims. However, there are inherent uncertainties involved in estimating asbestos-related costs and the Company's actual costs could exceed the Company's estimates due to changes in facts and circumstances after the date of each estimate. Further, while the Company does not presently believe there is a reasonable basis for estimating asbestos-related costs beyond 2010 and, accordingly, no accrual has been recorded for any costs which may be incurred beyond 2010, the Company expects that such costs are likely to continue beyond 2010, and that such costs could be substantial.

The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs. Although the Company has settled asbestos-related coverage matters with certain of its insurance carriers, other carriers have not yet agreed to settlements and disputes with certain carriers exist. The timing and amount of future recoveries from these and other insurance carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any disputes regarding coverage under such policies. The Company believes that substantial recoveries from the insurance carriers are probable. The Company reached this conclusion after considering its prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, and the advice of Heller Ehrman White & McAuliffe LLP with respect to applicable insurance coverage law relating to the terms and conditions of those policies. During 2000, KACC filed suit against a group of its insurers, after negotiations with certain of the insurers regarding an agreement covering both reimbursement amounts and the timing of reimbursement payments were unsuccessful. The litigation is intended, among other things, to: (1) ensure that the insurers provide KACC with timely and appropriate reimbursement payments for asbestos-related settlements and related legal costs incurred; and (2) to resolve certain issues between the parties with respect to how specific provisions of the applicable insurance policies are to be applied. Given the significance of expected asbestos-related payments in 2001 and 2002 based on settlement agreements in place at December 31, 2000, the receipt of timely and appropriate reimbursements from such insurers is critical to KACC's liquidity. The court is not expected to try the case until late 2001 or 2002. KACC is continuing to receive cash payments from the insurers.

The following tables present historical information regarding KACC's asbestos-related balances and cash flows:

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Liability (current portion of $130.0 and $53.0) | $ 492.4 | $ 387.8 |
| Receivable (included in Other assets)[1] | 406.3 | 315.5 |
| | $ 86.1 | $ 72.3 |

[1] The asbestos-related receivable was determined on the same basis as the asbestos-related cost accrual. However, no assurances can be given that KACC will be able to project similar recovery percentages for future asbestos-related claims or that the amounts related to future asbestos-related claims will not exceed KACC's aggregate insurance coverage. As of December 31, 2000 and 1999, $36.9 and $25.0, respectively, of the receivable amounts relate to costs paid. The remaining receivable amounts relate to costs that are expected to be paid by KACC in the future.

| | Year Ended December 31, 2000 | 1999 | 1998 | Inception To Date |
|---|---|---|---|---|
| Payments made, including related legal costs | $ 99.5 | $ 24.6 | $ 18.5 | $ 220.5 |
| Insurance recoveries | 62.8 | 6.6 | 19.9 | 131.3 |
| | $ 36.7 | $ 18.0 | $ (1.4) | $ 89.2 |

| | As of December 31, 2000: 2001 and 2002 | 2003 to 2005 | Thereafter |
|---|---|---|---|
| Expected annual payment amounts, before considering insurance recoveries | $110.0 - $135.0 | $25.0 - $50.0 | $125.0 |

Management continues to monitor claims activity, the status of lawsuits (including settlement initiatives), legislative developments, and costs incurred in order to ascertain whether an adjustment to the existing accruals should be made to the extent that historical experience may differ significantly from the Company's underlying assumptions. This process resulted in the Company reflecting charges of $43.0, $53.2 and $12.7 (included in Other income(expense) - see Note 1) in the years ended December 31, 2000, 1999 and 1998, respectively, for asbestos-related claims, net of expected insurance recoveries, based on recent cost and other trends experienced by KACC and other companies. While uncertainties are inherent in the final outcome of these asbestos matters and it is presently impossible to determine the actual costs that ultimately may be incurred and insurance recoveries that will be received, management currently believes that, based on the factors discussed in the preceding paragraphs, the resolution of asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's consolidated financial position or liquidity. However, as the Company's estimates are periodically re-evaluated, additional charges may be necessary and such charges could be material to the results of the period in which they are recorded.

*Labor Matters.* In connection with the USWA strike and subsequent lock-out by KACC, which was settled in September 2000, certain allegations of unfair labor practices ("ULPs") were filed with the National Labor Relations Board ("NLRB") by the USWA. As previously disclosed, KACC responded to all such allegations and believes that they were without merit. Twenty-two of twenty-four allegations of ULPs previously brought against KACC by the USWA have been dismissed. A trial before an administrative law judge for the two remaining allegations

commenced in November 2000 and is continuing. The Company is unable to estimate when the trial will be completed. Any outcome from the trial before the administrative law judge would be subject to additional appeals by the general counsel of the NLRB, the USWA or KACC. This process could take months or years. If these proceedings eventually resulted in a final ruling against KACC with respect to either allegation, it could be obligated to provide back pay to USWA members at the five plants and such amount could be significant. The Company continues to believe that the charges are without merit. While uncertainties are inherent in matters such as this and it is presently impossible to determine the actual costs, if any, that may ultimately arise in connection with this matter, the Company does not believe that the ultimate outcome of this matter will have a material adverse impact on the Company's liquidity or financial position. However, amounts paid, if any, in satisfaction of this matter could be significant to the results of the period in which they are recorded.

*Other Contingencies.* The Company or KACC is involved in various other claims, lawsuits, and other proceedings relating to a wide variety of matters related to past or present operations. While uncertainties are inherent in the final outcome of such matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

**13. Derivative Financial Instruments and Related Hedging Programs**

In conducting its business, KACC uses various instruments, including forward contracts and options, to manage the risks arising from fluctuations in aluminum prices, energy prices and exchange rates. KACC enters into hedging transactions to limit its exposure resulting from (1) its anticipated sales of alumina, primary aluminum, and fabricated aluminum products, net of expected purchase costs for items that fluctuate with aluminum prices, (2) the energy price risk from fluctuating prices for natural gas, fuel oil and diesel oil used in its production process, and (3) foreign currency requirements with respect to its cash commitments with foreign subsidiaries and affiliates.

As KACC's hedging activities are generally designed to lock-in a specified price or range of prices, gains or losses on the derivative contracts utilized in these hedging activities (except the impact of those contracts discussed below which have been marked to market) will generally offset at least a portion of any losses or gains, respectively, on the transactions being hedged. See Note 1 for a discussion of the effects of the new accounting requirements under SFAS No. 133, which will be used for reporting results beginning with the first quarter of 2001. The following table summarizes KACC's derivative hedging positions at December 31, 2000:

| Commodity | Period | Notional Amount | Estimated % of Annual Sales/Purchases Hedged | Carrying Value | Market Value |
|---|---|---|---|---|---|
| Aluminum (in tons) - | | | | | |
| Option contracts | 2001 | 362,000 | 82%[1] | $ 18.2 | $ 3.1 |
| Option contracts | 2002 | 262,000 | 52%[1] | 10.9 | 13.4 |
| Option contracts | 2003 | 42,000 | 9%[1] | 1.8 | 1.7 |
| Natural gas (in MMBtus per day) - | | | | | |
| Option contracts and swaps | 1/01 to 6/01 | 27,900 | 24% | 1.3 | 21.8 |
| Australian dollars (A$ per year) - | | | | | |
| Forwards and option contracts | 2001 | A$ 160.0 | 80% | 1.4 | (5.2) |
| Option contracts | 2002 to 2005 | A$ 90.0 | 56% | 12.2 | 13.3 |

[1] As of February 28, 2001, the estimated percentages of annual sales of primary aluminum (equivalents) hedged for 2001, 2002 and 2003 were 82%, 63% and 14%, respectively.

During late 1999 and early 2000, KACC also entered into a series of transactions with a counterparty that provided KACC with a premium over the forward market prices at the date of the transaction for 2,000 tons of primary aluminum per month during the period January 2000 through June 2001. KACC also contracted with the counterparty to receive certain fixed prices (also above the forward market prices at the date of the transaction) on 4,000 tons of primary aluminum per month over a three year period commencing October 2001, unless market prices during certain periods decline below a stipulated "floor" price, in which case the fixed price sales portion of the transactions terminate. The price at which the October 2001 and after transactions terminate is well below current market prices. While the Company believes that the October 2001 and after transactions are consistent with its stated hedging objectives, these positions do not qualify for treatment as a "hedge" under both pre-2001 and post-2001 accounting guidelines. Accordingly, these positions are marked-to-market each period. See Note 1 for mark-to-market pre-tax gains (losses) associated with the transactions for the years ended December 31, 2000, 1999 and 1998.

As of December 31, 2000, KACC had sold forward approximately 100% and 80% of the alumina available to it in excess of its projected internal smelting requirements for 2001 and 2002, respectively, at prices indexed to future prices of primary aluminum.

**14. Segment and Geographical Area Information**

The Company's operations are located in many foreign countries, including Australia, Canada, Ghana, Jamaica, and the United Kingdom. Foreign operations in general may be more vulnerable than domestic operations due to a variety of political and other risks. Sales and transfers among geographic areas are made on a basis intended to reflect the market value of products.

The Company's operations are organized and managed by product type. The Company operations include four operating segments of the aluminum industry and its commodities marketing and corporate segments. The aluminum industry segments include: Alumina and bauxite, Primary aluminum, Flat-rolled products and Engineered products. The Alumina and bauxite business unit's principal products are smelter grade alumina and chemical grade alumina hydrate, a value-added product, for which the Company receives a premium over smelter grade market prices. The Primary aluminum business unit produces commodity grade products as well as value-added products such as rod and billet, for which the Company receives a premium over normal commodity market prices. The Flat-rolled products group sells value-added products such as heat treat aluminum sheet and plate which are used in the aerospace and general engineering markets as well as selling to the beverage container and specialty coil markets. The Engineered products business unit serves a wide range of industrial segments including the automotive, distribution, aerospace and general engineering markets. The Company uses a portion of its bauxite, alumina and primary aluminum production for additional processing at its downstream facilities. Transfers between business units are made at estimated market prices. The Commodities marketing segment includes the results of KACC's alumina and aluminum hedging activities (see Note 13). The accounting policies of the segments are the same as those described in Note 1. Business unit results are evaluated internally by management before any allocation of corporate overhead and without any charge for income taxes, interest expense or non-recurring charges.

Financial information by operating segment at December 31, 2000, 1999 and 1998 is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Net Sales:[3] | | | |
| Bauxite and Alumina:[1][4] | | | |
| Net sales to unaffiliated customers | $ 442.2 | $ 395.8 | $ 445.2 |
| Intersegment sales | 148.3 | 129.0 | 135.8 |
| | 590.5 | 524.8 | 581.0 |
| Primary Aluminum:[2][4] | | | |
| Net sales to unaffiliated customers | 563.7 | 432.9 | 390.7 |
| Intersegment sales | 242.3 | 240.6 | 233.5 |
| | 806.0 | 673.5 | 624.2 |
| Flat-Rolled Products | 521.0 | 591.3 | 732.7 |
| Engineered Products | 564.9 | 556.8 | 595.3 |
| Commodities Marketing[4] | (25.4) | 18.3 | 60.5 |
| Minority Interests | 103.4 | 88.5 | 78.0 |
| Eliminations | (390.6) | (369.6) | (369.3) |
| | $ 2,169.8 | $ 2,083.6 | $ 2,302.4 |
| Equity in income (loss) of unconsolidated affiliates: | | | |
| Bauxite and Alumina | $ (8.4) | $ 3.4 | $ (3.2) |
| Primary Aluminum | 3.6 | (1.0) | 1.2 |
| Engineered Products and Other | - | 2.5 | 7.4 |
| | $ (4.8) | $ 4.9 | $ 5.4 |
| Operating income (loss):[4][6] | | | |
| Bauxite and Alumina - Note 2 | $ 57.2 | $ (10.5) | $ 5.5 |
| Primary Aluminum[5] | 100.1 | (4.8) | 28.3 |
| Flat-Rolled Products | 16.6 | 17.1 | 86.8 |
| Engineered Products | 34.1 | 38.6 | 51.5 |
| Commodities Marketing[4] | (48.7) | 21.3 | 98.1 |
| Micromill | (.6) | (11.6) | (18.4) |
| Eliminations | .1 | 6.9 | 8.9 |
| Corporate and Other | (61.4) | (61.8) | (65.1) |
| Labor Settlement and Other Non-Recurring Operating Items, Net - Notes 5 and 6 | 41.9 | (24.1) | (105.0) |
| | $ 139.3 | $ (28.9) | $ 90.6 |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Depreciation and amortization: | | | |
| Bauxite and Alumina - Note 2 | $ 22.2 | $ 29.7 | $ 36.4 |
| Primary Aluminum | 24.8 | 27.8 | 29.9 |
| Flat-Rolled Products | 16.7 | 16.2 | 16.1 |
| Engineered Products | 11.5 | 10.7 | 10.8 |
| Corporate and Other (includes Micromill in 1999 and 1998) | 1.7 | 5.1 | 5.9 |
| | $ 76.9 | $ 89.5 | $ 99.1 |
| Capital expenditures: | | | |
| Bauxite and Alumina - Note 2 | $ 254.6 | $ 30.4 | $ 26.9 |
| Primary Aluminum | 9.6 | 12.8 | 20.7 |
| Flat-Rolled Products | 7.6 | 16.6 | 20.4 |
| Engineered Products - Note 4 | 23.6 | 7.8 | 8.4 |
| Corporate and Other | 1.1 | .8 | 1.2 |
| | $ 296.5 | $ 68.4 | $ 77.6 |

(1) Net sales for 2000 and 1999, included approximately 267,000 tons and 264,000 tons, respectively of alumina purchased from third parties and resold to certain unaffiliated customers of the Gramercy facility and 55,000 tons and 131,000 tons, respectively, of alumina purchased from third parties and transferred to the Company's Primary aluminum business unit.

(2) Net sales for 2000, 1999 and 1998 included approximately 206,500 tons, 260,100 tons and 251,300 tons, respectively, of primary aluminum purchased from third parties to meet third-party and internal commitments.

(3) Net sales for 1999 and 1998 for all segments have been restated to conform to a new accounting requirement which states that freight charges should be included in cost of products sold rather than netted against net sales as was the Company's prior policy.

(4) Net sales and operating income (loss) for Bauxite and alumina and Primary aluminum segments for 1999 and 1998 have been restated to reflect a change in the Company's segment reporting. The results of the Company's metal hedging activities in the Commodities marketing segment are now set out separately rather than being allocated between the two commodity business units.

(5) Operating income (loss) for 1999 included potline preparation and restart costs of $12.8.

(6) The allocation of the labor settlement charge to the Company's business units for the year ended December 31, 2000, is as follows: Bauxite and Alumina - $2.1, Primary aluminum - $15.9, Flat-rolled products - $18.2 and Engineered products - $2.3.

| | December 31, | |
|---|---|---|
| | 2000 | 1999 |
| Investments in and advances to unconsolidated affiliates: | | |
| Bauxite and Alumina | $ 56.0 | $ 71.6 |
| Primary Aluminum | 19.0 | 25.3 |
| Corporate and Other | 2.8 | - |
| | $ 77.8 | $ 96.9 |

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Segment assets: | | |
| Bauxite and Alumina | $ 957.0 | $ 777.7 |
| Primary Aluminum | 623.3 | 560.8 |
| Flat-Rolled Products | 337.7 | 423.2 |
| Engineered Products | 232.9 | 253.1 |
| Commodities Marketing | 62.1 | 99.0 |
| Corporate and Other (includes Micromill in 1999) | 1,130.1 | 1,085.0 |
| | $ 3,343.1 | $ 3,198.8 |

Geographical information for net sales, based on country of origin, and long-lived assets follows:

| | Year Ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| Net sales to unaffiliated customers: | | | |
| United States | $ 1,350.1 | $ 1,439.6 | $ 1,744.0 |
| Jamaica | 298.5 | 233.1 | 237.0 |
| Ghana | 237.5 | 153.2 | 89.8 |
| Other Foreign | 283.7 | 257.7 | 231.6 |
| | $ 2,169.8 | $ 2,083.6 | $ 2,302.4 |

| | December 31, 2000 | December 31, 1999 |
|---|---|---|
| Long-lived assets:[1] | | |
| United States | $ 809.0 | $ 688.1 |
| Jamaica | 290.3 | 288.2 |
| Ghana | 80.8 | 84.1 |
| Other Foreign | 73.8 | 90.2 |
| | $ 1,253.9 | $ 1,150.6 |

(1) Long-lived assets include Property, plant, and equipment, net and Investments in and advances to unconsolidated affiliates.

The aggregate foreign currency gain included in determining net income was immaterial for the years ended December 31, 2000, 1999 and 1998. No single customer accounted for sales in excess of 10% of total revenue in 2000, 1999 and 1998. Export sales were less than 10% of total revenue during the years ended December 31, 2000, 1999 and 1998.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

**QUARTERLY FINANCIAL DATA (UNAUDITED)**

| | Quarter Ended | | | |
|---|---|---|---|---|
| (In millions of dollars, except share amounts) | March 31, | June 30, | September 30, | December 31, |
| 2000 | | | | |
| Net sales | $ 575.7[8] | $ 552.8[8] | $ 545.2[8] | $ 496.1 |
| Operating income | 36.9 | 51.5 | 2.8 | 48.1 |
| Net income (loss) | 11.7[1] | 11.0[2] | (16.8)[3] | 10.9[4] |
| Basic/Diluted Earnings (loss) per share | .15[1] | .14[2] | (.21)[3] | .14[4] |
| Common stock market price: | | | | |
| High | 8.88 | 5.13 | 6.06 | 5.94 |
| Low | 4.13 | 2.94 | 3.50 | 3.50 |
| 1999 | | | | |
| Net sales | $ 490.3[8] | $ 536.2[8] | $ 528.7[8] | $ 528.4[8] |
| Operating income (loss) | (33.0) | .7 | (12.1) | 15.5 |
| Net income (loss) | (38.2) | (15.7) | (39.2)[5] | 39.0[6] |
| Basic/Diluted Earnings (loss) per share | (.48) | (.20) | (.49)[5] | .49 |
| Common stock market price: | | | | |
| High | 6.94 | 10.13 | 9.69 | 8.25 |
| Low | 4.75 | 5.00 | 6.63 | 6.00 |
| 1998 | | | | |
| Net sales | $ 609.6[8] | $ 626.8[8] | $ 552.9[8] | $ 513.1[8] |
| Operating income (loss) | 44.8 | 55.3 | 30.8 | (40.3) |
| Net income (loss) | 12.0 | 16.7 | 10.8 | (38.9)[7] |
| Basic/Diluted Earnings (loss) per share | .15 | .21 | .14 | (.49)[7] |
| Common stock market price: | | | | |
| High | 11.00 | 11.63 | 9.63 | 7.75 |
| Low | 8.13 | 8.88 | 5.63 | 4.63 |

(1) Includes a pre-tax gain of $14.4 to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions. Excluding this item, basic income per share would have been approximately $.04.

(2) Includes a pre-tax gain of $15.8 from the sale of power offset by a pre-tax charge of $6.0 to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions and a pre-tax charge of $2.0 for certain severance and relocation costs associated with Corporate restructuring initiatives and product line exit. Excluding these items, basic income per share would have been approximately $.09.

(3) Includes a pre-tax labor settlement charge of $38.5, a non-cash pre-tax charge of $43.0 for asbestos-related claims, a pre-tax charge of $11.5 for incremental maintenance spending and pre-tax charges of $18.1 for non-recurring impairment and restructuring charges offset by a pre-tax gain of $40.5 from the sale of power, pre-tax gains of $39.0 related to real estate transactions and a pre-tax gain of $.9 to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions. Excluding these items, basic income per share would have been approximately $.03.

(4) Includes a pre-tax gain of $103.2 from the sale of power and a pre-tax gain of $1.4 to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions offset by a non-cash impairment loss of approximately $33.0, a LIFO inventory charge of $7.0 and a pre-tax charge of $5.3 for other non-recurring impairment and restructuring charges. Excluding these items, but giving effect to operating profit foregone as a result of these power sales, basic loss per share would have been approximately $.19.

(5) Includes a non-cash pre-tax charge of $19.1 to reduce the carrying value of the Company's Micromill assets, a non-cash pre-tax charge of $15.2 for asbestos-related claims and a pre-tax charge of $5.9 to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions. Excluding these items, basic loss per share would have been approximately $.16.

(6) Includes a pre-tax gain of $85.0 on involuntary conversion at Gramercy facility. See Note 2. Excluding this item, basic loss per share would have been $.22.

(7) Includes an unfavorable pre-tax strike-related gross profit impact of approximately $50.0, and a non-cash pre-tax charge of $45.0 related to impairment of the Company's Micromill assets. Excluding these items, basic earnings per share would have been approximately $.29.

(8) Net sales for the quarterly periods prior to the quarter ended December 31, 2000 have been restated to conform to a new accounting principle that requires freight charges to be included in cost of products sold.

Kaiser Aluminum Corporation and Subsidiary Companies

**FIVE-YEAR FINANCIAL DATA CONSOLIDATED BALANCE SHEETS**

| | December 31, | | | | |
|---|---|---|---|---|---|
| (In millions of dollars) | 2000 | 1999 | 1998 | 1997 | 1996 |
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 23.4 | $ 21.2 | $ 98.3 | $ 15.8 | $ 81.3 |
| Receivables | 429.8 | 261.0 | 282.7 | 340.2 | 252.4 |
| Inventories | 396.2 | 546.1 | 543.5 | 568.3 | 562.2 |
| Prepaid expenses and other current assets | 162.7 | 145.6 | 105.5 | 121.3 | 127.8 |
| Total current assets | 1012.1 | 973.9 | 1,030.0 | 1,045.6 | 1,023.7 |
| Investments in and advances to unconsolidated affiliates | 77.8 | 96.9 | 128.3 | 148.6 | 168.4 |
| Property, plant, and equipment - net | 1,176.1 | 1,053.7 | 1,108.7 | 1,171.8 | 1,168.7 |
| Deferred income taxes | 454.2 | 440.0 | 377.9 | 330.6 | 264.5 |
| Other assets | 622.9 | 634.3 | 346.0 | 317.3 | 308.7 |
| Total | $ 3,343.1 | $ 3,198.8 | $ 2,990.9 | $ 3,013.9 | $ 2,934.0 |
| **Liabilities and Stockholders' Equity** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accruals | $ 673.5 | $ 500.3 | $ 432.7 | $ 457.3 | $ 453.4 |
| Accrued postretirement medical benefit obligation - current portion | 58.0 | 51.5 | 48.2 | 45.3 | 50.1 |
| Payable to affiliates | 78.3 | 85.8 | 77.1 | 82.7 | 97.0 |
| Long-term debt - current portion | 31.6 | .3 | .4 | 8.8 | 8.9 |
| Total current liabilities | 841.4 | 637.9 | 558.4 | 594.1 | 609.4 |
| Long-term liabilities | 703.7 | 727.1 | 532.9 | 491.9 | 458.1 |
| Accrued postretirement medical benefit obligation | 656.9 | 678.3 | 694.3 | 720.3 | 722.5 |
| Long-term debt | 957.8 | 972.5 | 962.6 | 962.9 | 953.0 |
| Minority interests | 101.1 | 117.7 | 123.5 | 127.7 | 121.7 |
| Stockholders' equity: | | | | | |
| Preferred stock | - | - | - | - | .4 |
| Common stock | .8 | .8 | .8 | .8 | .7 |
| Additional capital | 537.5 | 536.8 | 535.4 | 533.8 | 531.1 |
| Retained earnings (accumulated deficit) | (454.3) | (471.1) | (417.0) | (417.6) | (460.1) |
| Accumulated other comprehensive income (loss) | (1.8) | (1.2) | - | - | (2.8) |
| Total stockholders' equity | 82.2 | 65.3 | 119.2 | 117.0 | 69.3 |
| Total | $ 3,343.1 | $ 3,198.8 | $ 2,990.9 | $ 3,013.9 | $ 2,934.0 |
| Debt-to-capital ratio[1] | 81.2 | 81.2 | 76.9 | 77.8 | 81.2 |

[1] Total of long-term debt - current portion and long-term debt (collectively "total debt") as a ratio of total debt, deferred income tax liabilities, minority interests, and stockholders' equity.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

**FIVE-YEAR FINANCIAL DATA STATEMENTS OF CONSOLIDATED INCOME (LOSS)**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| (In millions of dollars, except share amounts) | 2000 | 1999 | 1998 | 1997 | 1996 |
| Net sales | $ 2,169.8 | $ 2,083.6[1] | $ 2,302.4[1] | $ 2,423.3[1] | $ 2,238.8[1] |
| Costs and expenses: | | | | | |
| Cost of products sold | 1,891.4 | 1,893.5[1] | 1,892.2[1] | 2,001.3[1] | 1,905.8[1] |
| Depreciation and amortization | 76.9 | 89.5 | 99.1 | 102.5 | 107.6 |
| Selling, administrative, research and development, and general | 104.1 | 105.4 | 115.5 | 131.8 | 127.6 |
| Labor settlement charge | 38.5 | - | - | - | - |
| Other non-recurring operating items, net | (80.4) | 24.1 | 105.0 | 19.7 | - |
| Total costs and expenses | 2,030.5 | 2,112.5 | 2,211.8 | 2,255.3 | 2,141.0 |
| Operating income (loss) | 139.3 | (28.9) | 90.6 | 168.0 | 97.8 |
| Other income (expense): | | | | | |
| Interest expense | (109.6) | (110.1) | (110.0) | (110.7) | (93.4) |
| Gain on involuntary conversion at Gramercy facility | - | 85.0 | - | - | - |
| Other - net | (4.3) | (35.9) | 3.5 | 3.0 | (2.7) |
| Income (loss) before income taxes, minority interests | 25.4 | (89.9) | (15.9) | 60.3 | 1.7 |
| (Provision) benefit for income taxes | (11.6) | 32.7 | 16.4 | (8.8) | 9.3 |
| Minority interests | 3.0 | 3.1 | .1 | (3.5) | (2.8) |
| Net income (loss) | 16.8 | (54.1) | .6 | 48.0 | 8.2 |
| Preferred stock dividends | - | - | - | (5.5) | (8.4) |
| Net income (loss) available to common shareholders | $ 16.8 | $ (54.1) | $ .6 | $ 42.5 | $ (.2) |
| Earnings (loss) per share: | | | | | |
| Basic/Diluted | $ .21 | $ (.68) | $ .01 | $ .57 | $ - |
| Dividends per common share | $ - | $ - | $ - | $ - | $ - |
| Weighted average shares outstanding (000): | | | | | |
| Basic | 79,520 | 79,336 | 79,115 | 74,221 | 71,644 |
| Diluted | 79,523 | 79,336 | 79,156 | 74,382 | 71,644 |

(1) Net sales and cost of products sold for prior years have been restated to conform to a new accounting principle that requires freight charges ($39.3 in 1999, $46.0 in 1998, $50.1 in 1997 and $48.3 in 1996) to be included in cost of products sold.

## CORPORATE INFORMATION

**Directors**

Raymond J. Milchovich
*President and Chief Executive Officer*

George T. Haymaker, Jr.
*Non-executive Chairman,*
*former Chief Executive Officer*
*Kaiser Aluminum*

Charles E. Hurwitz
*Chairman and Chief Executive Officer*
*MAXXAM Inc.*

Robert J. Cruikshank
*Personal Investments*

James T. Hackett
*Chairman, President and Chief Executive Officer*
*Ocean Energy, Inc.*

Ezra G. Levin
*Partner in the law firm of*
*Kramer Levin Naftalis & Frankel LLP*

James D. Woods
*Chairman Emeritus and Consultant*
*Baker Hughes Incorporated*

**Corporate Officers**

*Raymond J. Milchovich*
*President and Chief Executive Officer*

Charles E. Hurwitz*
*Vice Chairman*

Jack A. Hockema
*Executive Vice President, and*
*President of Kaiser Fabricated Products*

John T. La Duc
*Executive Vice President and*
*Chief Financial Officer*

J. Kent Friedman
*Senior Vice President and General Counsel*

John Barneson
*Vice President and*
*Chief Administrative Officer*

Joseph A. Bonn
*Vice President, Commodities Marketing,*
*Corporate Planning and Development*

James L. Chapman*
*Vice President of Primary Aluminum Operations*

Robert E. Cole*
*Vice President, Government Affairs*

Edward A. Kaplan
*Vice President of Taxes*

W. Scott Lamb
*Vice President, Investor Relations and Corporate*
*Communications*

Daniel D. Maddox
*Vice President and Controller*

Ronald L. Reman
*Vice President, Special Initiatives*

Kris S. Vasan
*Vice President, Strategic Risk Management*

Robert W. Warnock
*Vice President, Performance*
*Measurement and Analysis*

John Wm. Niemand II
*Secretary*

*Kaiser Aluminum & Chemical Corporation only

## CORPORATE INFORMATION

Kaiser Aluminum Corporation
5847 San Felipe, Suite 2600
Houston, TX 77057
713-267-3777

Internet at: www.kaiseral.com

**Stockholder Matters**

Kaiser Aluminum Corporation stock is traded on The New York Stock Exchange. The ticker symbol for the Company's Common Stock is KLU.

The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available, without charge, on written request. In addition, the Form 10-K is available electronically at www.sec.gov. A copy of the exhibits to the Form 10-K is available upon payment of a small fee.

All requests should be directed to:
Shareholder Services
Kaiser Aluminum Corporation
5847 San Felipe, Suite 2600
Houston, TX 77057

**Auditors**

Arthur Andersen LLP
711 Louisiana, Suite 1300
Houston, TX 77002

**Agents and Trustees**

Fleet National Bank
c/o EquiServe
P.O. Box 43010
Providence, RI 02940-3010
781-575-3400
Internet at: www.equiserve.com
*Transfer Agent and Registrar for Kaiser Aluminum Corporation Common Stock*

State Street Bank and Trust Company
Corporate Trust Customer Service Dept.
2 Avenue de Lafayette
Corporate Trust Window, 5th Floor
Boston, MA 02111-1724
800-531-0368
E-mail: ct_customerservice@statestreet.com
Internet at: www.statestreet.com
*Trustee for Kaiser Aluminum & Chemical Corporation 12¾% Senior Subordinated Notes due 2003*

U.S. Bank Trust National Association
180 E. 5th Street
St. Paul, MN 55101
800-934-6802
Internet at: www.usbank.com
*Trustee for Kaiser Aluminum & Chemical Corporation 9⅞% Senior Notes due 2002, 10⅞% Series B Senior Notes due 2006, and 10⅞% Series D Senior Notes due 2006.*

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KAISER ALUMINUM
CORPORATION

5847 San Felipe, Suite 2600
Houston, Texas 77057-3010

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